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TREASURY FOR MEWENS

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TAGS: EPET ETRD EAGR ECON EC
SUBJECT: ECUADOR ECON WEEKLY: ECUADOR-IRAN TRADE OFFICES; PETROLEUM NEWS; MORE TARIFF CUTS

Classified By: Classified by Acting DCM Nan Fife for reasons 1.4 (b & d)

¶1. (U) The following is a weekly economic update for Ecuador that reports notable developments that are not reported by individual cables.

Ecuador-Iran Trade Offices

¶2. (SBU) Ecuador is planning to open a trade office in Tehran, while Iran is opening one in Quito. On July 19, in his weekly presidential radio address, President Correa said that Ecuador would plan to open an embassy in Iran within a year. He commented on the enormous commercial gains from exchange and cooperation with Iran. He noted that Iran wants to invest in Ecuador, particularly in its new refinery that is to be built in Manabi. Reflecting efforts to prepare for the opening of its trade office in Iran, the Ecuadorian Foreign Ministry hosted a seminar on trade opportunities between Ecuador and Iran July 8 and 9. According to press reports, the Ecuadorian Vice Minister for Trade and the head of the Iranian trade office in Quito gave presentations. The press reported that the conference identified Iran as competitive in technology and services, while possible Ecuadorian exports to Iran included bananas, shrimp, fish products, flowers, cacao, chewing gum, and exotic fruits (note: the first five products are Ecuador,s leading non-petroleum exports to all markets). In 2007, per the Central Bank website, Ecuador imported $16.1 million from Iran, 64% for limestone and 35% for vaccines.

¶3. (SBU) Comment: Ecuador is looking to expand the range of its markets, and is seeking additional market opportunities in Latin America, Europe, and Asia. However, opening a trade office in Iran will likely have a marginal impact on trade between the two countries, since the principal export for both countries is petroleum. No data is available on Ecuadorian exports to Iran.

Petroleum News

¶4. (U) Following the seizure of assets of the Isaias Brothers (reftel), the GOE took control of 12% of the Palo Azul and Block 18 petroleum fields which the Isaias Brothers own. The fields are operated by the state-owned Brazilian company Petrobras (in conjunction with others).

¶5. (SBU) Petrobras and Perenco (France) have not yet reached agreement with the GOE on contract renegotiations, and Minister of Petroleum and Mines Galo Chiriboga may still terminate their contracts. According to Chiriboga, the GOE

has already reached agreement with all the other foreign petroleum foreign companies regarding contract renegotiations except for Petrobras, Perenco, and City Oriente (US). City Oriente,s contract is in the process of termination.

¶6. (C) Data from the Central bank shows that June is the first month since January 2008 that the International Monetary Reserves for Free Availability (RILD in Spanish) has not grown. According to estimates by economic consultant Ramiro Galarza, the RILD should grow by at least $300 million per month given high petroleum prices. According to Fernando Santos, petroleum consultant, some international petroleum companies with participation contracts decided to stop paying the controversial 50% windfall tax required by Ecuador,s hydrocarbons law to force a decision from the GOE. Santos told us that at least one company that had initiated an arbitration process against the government because of the hydrocarbons law did not pay the windfall tax in June. The last time a company took this stance, the public persecutor accused the management of the company of appropriation of public funds and ordered their arrest. (Comment: There is still no reaction from the GOE; however, this could make oil contract negotiations more contentious.)

Tariff Reductions on Imported Agricultural Inputs
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¶7. (U) On July 17, the public Council on Foreign Trade and Investment (COMEXI) and representatives of the private sector reached agreement on eliminating tariffs on 312 agricultural inputs (mainly fertilizers) to strengthen the agricultural sector. This decision was made based on high agricultural input prices that have been exacerbating inflation. The move is expected to benefit the agricultural sector. This is the fifth time during the Correa administration that the GOE has reduced tariffs on imported agricultural inputs and other products. According to the Coordinating Minister of Economic Policy, Pedro Paez, all of these reforms will cost the GOE $93 million in lost tariff revenue.

CDA Griffiths